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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
September 16 2005 ISSUE

¶1. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- South Africa Improves in World Bank's Business regulation Index;
- Import-Parity Pricing Might Be Phased Out;
- Eastern Cape Municipal Finances in Disarray;
- Transport Survey Reveals Concerns; and
- Unemployed Not Getting Job Information.

End Summary.

SOUTH AFRICA IMPROVES IN WORLD BANK'S BUSINESS REGULATION INDEX

¶2. Doing Business in 2006, a report cosponsored by the World Bank and International Finance Corporation, ranked South Africa 28th out of 155 nations in its ease of doing business, higher than Israel, Spain, Taiwan, Saudi Arabia and France. In last year's report, South Africa's ranking was in the low 30s, suggesting that the country has made progress in creating an environment conducive to investment. Overall, the World Bank rated South Africa as one of the countries with the "most business-friendly conditions" but warned that there were dire problems elsewhere in Africa. For example, Madagascar's minimum cost of starting a company rose to $5350 - 25 times the average annual income. If all taxes were paid in Sierra Leone, they would comprise 165 percent of a company's gross profit. The report noted in Mozambique it takes 153 days to register a new business. In South Africa, it costs less to start a business here than it did last year, down from 9.1 percent to 8.6 percent of per capita income. The country also scored well on investor protection, with the strength of shareholder protection and extent of disclosure both rated eight out of 10. These ratings equaled UK's performance, and were better than Australia or Denmark. In an index of labor inflexibility, South Africa scored below the average for any region. Though it was as hard to hire workers in South Africa as last year, it had become 10 percent easier to fire them. The top 30 economies in the world in terms of the report's ease-of-doing-business index, in order, were New Zealand, Singapore, the United States, Canada, Norway, Australia, Hong Kong/China, Denmark, the United Kingdom, Japan, Ireland, Iceland, Finland, Sweden, Lithuania, Estonia, Switzerland, Belgium, Germany, Thailand, Malaysia, Puerto Rico, Mauritius, the Netherlands, Chile, Latvia, Korea, South Africa, Israel, and Spain. Doing Business reports use a set of regulatory indicators related to business startup, operation, trade, payment of taxes, and closure by measuring the time and cost associated with various government requirements; the reports do not track variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates. Source: Business Day and www.worldbank.org, September 14.

IMPORT-PARITY PRICING MIGHT BE PHASED OUT

¶3. Trade and Industry Minister Mandisi Mpahlwa alluded to a possible phasing out of import-parity pricing, saying that a set of policy proposals developed by the Trade and Industry Department would be submitted to the cabinet in the next month. Government launched a study into the effects of import parity pricing in 2004 although the results have not yet been released. Mpahlwa has said on several occasions recently that prices of some raw materials were significantly higher in South Africa than in other countries. Efforts to increase value-added product manufacturing in South Africa have had limited success to date and analysts blame import-pricing parity (the domestic pricing of raw materials at international

prices) as a primary culprit. Mpahlwa also gave strong assurance that the government did not intend making major changes to the support the automotive industry enjoyed through the Motor Industry Development Program (MIDP). The government recognized the importance of the automotive industry, citing its 7.2 percent contribution to gross domestic product in 2004. The industry is the third largest sector in the domestic economy and accounts for 33 percent of manufacturing output. Source: Business Day, September 14.

EASTERN CAPE MUNICIPAL FINANCES IN DISARRAY

¶4. Most municipalities' finances in the Eastern Cape Province are in a bad shape, with most local authorities unable to calculate how much money they are owed for services rendered. Local government Member of Executive Council Sam Kwelita stated only two municipalities out of more than 40 had received unqualified audit reports from the auditor-general, while a significant number had not bothered in eight years to report their finances for an audit by the auditor-general. Of the 36 municipalities that had been audited, 10 received qualified reports and 24 had "disclaimers" attached to the audit reports, mainly concerning the late submission of financial statements. Since 2001, 34 investigations had been conducted into inadequate administration in local government in Eastern Cape. The Eastern Cape along with the provinces of the Western Cape, Free State and Mpumalanga presented the state of their finances to Parliament's Local Government Portfolio Committee during the past few weeks. Deficits and poor financial record-keeping were some of the common elements. Reports from these provinces showed large disparities between the budgeted income of most municipalities and what was actually collected. Municipalities across the country are owed more than R40 billion ($6.3 billion, using 6.3 rands per dollar), mostly because of the refusal by consumers to pay and the inability of local councils to collect what is owed to them. Eastern Cape was able to supply only budgeted figures and not actual figures for its towns. Eastern Cape municipalities were also owed R80 million ($13 million) by government departments. The worst offenders were the Department of Public Works at R27 million ($4.3 million) and the Department of Education at R21 million ($3.3 million). Like Free State, Eastern Cape has recently experienced street protests and violence as communities have complained about poor service delivery. Source: Business Day, September 14.

TRANSPORT SURVEY REVEALS CONCERNS

¶5. A recent comprehensive survey of household transport use has found high levels of public dissatisfaction with all forms of public transport. The national household travel survey, which interviewed 45000 households, found that 30 percent of all households regarded personal safety as a serious public transport issue, either because of motor accidents or crime. The highest level of concern was about minibus taxi accidents and bad driver behavior. Only 30 percent of all households interviewed did not experience any serious transport problems with 82 percent of rural households, 73 percent of metropolitan households and 59 percent of urban households complaining about serious transport problems. Currently, minibus taxis, which carry 64 percent of the country's passengers, are unsubsidized, while rail and buses get R2.5 billion ($400 million) and R2.2 billion ($350 million) in government subsidies annually. The survey found that 48 percent of all households experience problems with access to transport, particularly in rural areas, with 76 percent having no access to train services; 38 percent no access to bus services; and 9 percent no access to taxi services. Only 10 percent of those surveyed could access a train within 15 minutes of their homes. The survey found that of the nearly 10 million people who travel regularly to work, about 3.9 million use public transport, 64 percent of them relying on taxis (despite taxis being more expensive), 21 percent on buses and 15 percent on trains. Twenty-three percent of all households find transport too expensive, spending on average R170 ($22, using 7.56, the 2003 rand per dollar exchange rate) a month on trains; R200 ($26) on buses; and R220 ($29) on minibus taxis (at 2003 prices). Eighteen-percent of households spend more than 20 percent of their household income on public transport and 18 percent (1.7 million) of commuters travel for more than two hours a day to work. Problems in the transport sector include: (1) inadequate regulation and law enforcement; (2) destructive competition within and between modes of transport; (3) poorly trained and undisciplined drivers; (4) age and poor condition of equipment; and (5) services ill-matched to the needs of consumers. Source: Business Day and Allafrica.com, September 14.

UNEMPLOYED NOT GETTING JOB INFORMATION

¶6. Inefficient information flows in the job markets may be one of the factors contributing to youth unemployment, according to the latest South African Reserve Bank publication Labor Market Frontiers. The lack of matching job seekers with opportunities may be contributing to unemployment being worse for those without job-seeking skills such as proper interview techniques. The lower the level of education of the unemployed, the more likely it was that job seekers inquired directly at workplaces. Job advertisements appeared to reach mainly those with high school or tertiary education. Nearly 70 percent of those without any schooling looked for jobs by making direct inquiries; this percentage dropped to 32 percent among those with tertiary education. By contrast, the percentage responding to advertisements increased with the level of education from about 2 percent among those with no education to 24 percent for those with completed secondary education and 52 percent at the tertiary level. White people were more likely to depend on relatives or friends in their job searches, while coloured people were most likely to make direct inquiries at places of employment. Of South Africa's more than 3 million unemployed youth, only about 3 percent had received job offers in the previous six months. Another study in Labor Market Frontiers found that most of the formally employed with some tertiary qualifications were in non-science, non-technical fields such as education, business, commerce and management studies. In addition, most of those in formal employment merely have high school education, often incomplete, rather than vocational or industry-related job training. Source: Business Day, September 14.

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